

CHAPTER 2DOD INTERNAL AUDITING STANDARDSA. PURPOSE

The purpose of this chapter is to prescribe the auditing standards that shall be followed by DoD internal audit organizations and auditors in the management and performance of **auditing activities**. Other chapters of the Manual expand upon the **standards** herein and **prescribe** applicable **policies** and guidance for **carrying out** audit responsibilities **imposed** by these standards.

B. APPLICABILITY

The **provisions** of this charter are **mandatory** for all **DoD internal audit** and **internal** review organizations, including **nonappropriated fund audit** organizations (hereafter referred to collectively as "internal **audit** organizations").

C. BACKGROUND

1. The level of acceptance and confidence in **audit work** by **management** and external bodies is largely dependent upon the quality and reliability of such work. Properly **developed** standards provide criteria by which the quality and efficiency of an audit organization may be evaluated and measured. The existence and use of standards by **audit** organizations distinguish these organizations from other **DoD** review and oversight activities. The Inspector General Act of 1978, as amended (reference (a)), requires all **DoD internal audit** organizations to adhere to auditing standards issued by the **Comptroller General** of the United States (reference (c)). These standards relate to the scope and **quality** of audit efforts and to the characteristics of professional and meaningful audit reports. The statements on auditing standards and **other** pronouncements issued by the American Institute of Certified Public Accountants (**AICPA**) are incorporated into reference (a) unless **specifically** excluded by a formal announcement from the General Accounting Office (GM).

2. The Institute of Internal **Auditors** (IA) and the President's Council on Integrity and Efficiency (**PCIE**) also have **promulgated** standards (references (e) and (f)) **applicable** to audit activities. The **IIA** and **PCIE** standards are **compatible with those** issued by the **Comptroller General** of the **United States** (reference (c)). While reference (c) deals primarily with the performance of individual audit projects, references (e) and (f) provide guidelines for the management of **both** audit projects and **audit** organizations.

3. Office of Management and Budget (**OMB**) Circular A-73 (reference (b)) also provides guidance applicable to **DoD** internal audit organizations. Reference (b) concentrates on the areas of organization and staffing of **audit** activities, determination of audit priorities, formulation of audit plans, and coordination of audit work.

4. The Single **Audit** Act of 1984 (31 U.S.C. 7501-7507) (reference (g)); **OMB** Circulars A-128 (reference (h)), and A-133 (reference (i)); and the **AICPA** have set forth standards for audits of state and local governments, institutions of higher education, hospitals, and other nonprofit organizations receiving Federal funds. These standards **should be considered by the cognizant DoD** internal audit element when monitoring or reviewing the audits conducted under provisions of this Act.

D. DOD AUDITING STANDARDS

The auditing standards to be followed by DoD internal audit organizations and auditors are a **compilation** of auditing standards issued by the **OMB, Comptroller General, IIA and PCIE** (references (b), (c), (e), and (f)). The **DoD auditing standards** are **comprised** of 7 **general standards** (Nos. 100, 200, etc.) and 36 specific standards, as follow: (An overview of the auditing standards is contained in the enclosure to this chapter.)

100 INDEPENDENCE - The internal **audit** organization and the **individual** auditors must be free from personal, external, or organizational impairments and consistently shall maintain an **independent attitude** and appearance.

110 Personal Impairments - In some circumstances, auditors cannot be impartial because of their views or personal situation. While these impairments apply to individual **auditors**, they also may apply to the internal audit organization. These circumstances include, but are not limited to, the **following**:

1. Official, professional, personal, or financial relationships, or conflicts of interest that may cause the auditor to limit the extent of the **inquiry**, to limit disclosure, or to weaken **audit** findings in any way.
2. Preconceived ideas about **individuals**, groups, organizations, or objectives of a particular program that **could** bias the audit.
3. Previous involvement in a **decision-making** or management capacity that would affect current operations of the entity or program being **audited**.
4. Biases, including those **induced** by political or social convictions, that result from employment in, or loyalty to, a particular group, organization, or **level** of Government.
5. Subsequent performance of an **audit** by the same individual who, for example, previously had approved invoices, payrolls, claims, and other proposed payments.
6. Subsequent performance of an **audit** by the same individual who maintained the official accounting records.
7. Direct or substantial indirect financial interests in the **audited** entity or **program**.

120 External Impairments - Factors external to the internal **audit** organization can restrict the **audit** or interfere with the auditor's ability to form independent and objective opinions and **conclusions**. When external factors such as those listed below are or appear to be evident, an **audit** may be affected adversely and the auditor may not have **complete freedom** to make an independent and objective **judgment**:

1. **Undue** interference in the **recruitment**, assignment, and promotion of audit personnel.

2. **Undue** restrictions on funds or other resources dedicated to the **internal audit** organization that could prevent the auditors from **run** performing essential work.
3. Authority to overrule or to unduly influence the auditor's **judgment** as to selection of what is to be audited, determination of the **scope** and timing of work or **approach** to be used, content of any resulting report, or resolution of **audit** findings.
4. Influences that jeopardize the auditor's **continued** employment for reasons other than **competency** or the need for audit services.
5. Perceptions about the **auditor** or the auditor's situation that might lead others to question the **auditor's** independence.
6. Interference with access **to** all records, reports, audits, reviews, documents, papers, **recommendations**, or other material needed to **carry out** the **audit** or denial of **opportunity** to obtain explanations from officials **and employees**.
7. Political pressures that affect the selection of areas for audit, the performance of those **audits, and** the reporting of conclusions objectively without fear of censure.

130 Scope Impairments - When factors external to the internal **audit** organization and the auditor restrict the **audit** or interfere with the auditor's ability to form objective opinions and conclusions, the auditor shall attempt to **remove** the limitation, or failing that, appropriately qualify the resulting **audit** report.

140 Organizational Placement - The **DoD** central internal audit organizations shall report to the heads of their Components. Other audit organizations shall report to the head or deputy head of a **command** or activity and shall **be** organizationally located outside the staff or line management function of the activities or functions under **audit**. However, placement of installation-level internal review staffs under the Chief of Staff is acceptable provided that independence is not **compromised** and the auditors have access, if needed, to the head/deputy head of the activity.

150 Objectivity - **Auditors** shall be objective in performing **audits**.

1. Objectivity is an independent mental attitude which auditors shall maintain in performing audits. Auditors are not to subordinate their **judgment** on **audit** matters to that of others.
2. The auditor's objectivity is not adversely affected when the **auditor recommends** standards of control for **systems** or reviews procedures before they are implemented. **However**, designing, installing, and operating systems are not audit functions. Nor is the drafting of procedures for systems an audit function. Performing such activities is presumed to impair audit objectivity.

200 PROFESSIONAL PROFICIENCY - Professional proficiency is the responsibility of the internal audit organization and each auditor. The internal audit organization shall assign to each **audit** those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly.

210 Due Professional Care - Due professional care is to be used in conducting the audit and in preparing the related reports.

1. The internal audit organization and the auditor are responsible for employing professional standards in auditing government organizations, programs, activities, and functions.
2. Due professional care calls for the application of the care and skill expected of a reasonably prudent and **competent** auditor in the same or similar circumstances. Professional care should, therefore, **be** appropriate to the **complexities** of the audit being performed. In exercising due professional care, auditors shall be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They also shall be alert to those conditions and activities where irregularities are most likely to **occur**. In addition, they shall identify inadequate controls and **recommend** improvements to **promote compliance** with acceptable procedures and practices.
3. Due care implies reasonable care and **competence**, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations **and** verification to a reasonable extent, but does not require detailed audits of all transactions. Accordingly, the auditor cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance shall **be** considered whenever the auditor undertakes an auditing assignment.
4. When an **auditor** suspects fraud or other illegal acts, the **appropriate DoD** criminal investigative organization shall be informed.
5. Exercising due professional care means using good judgment in choosing tests **and** procedures and in preparing reports. To this end, the **auditor** shall consider the following:
 - a. Extent of audit work needed to achieve audit objectives.
 - b. Relative materiality or significance of matters to which audit procedures are applied.
 - c. Adequacy and effectiveness of internal controls.
 - d. Cost of auditing in relation to potential benefits.
 - e. **Adjustment** of **scope** as deemed necessary to comply with reporting timeframes that must be met.

220 Auditor Qualifications - Auditors shall **possess** the knowledge, skills, and disciplines essential to the performance of audits. Each auditor shall **possess** certain **knowledge** and skills as follows:

1. Proficiency in applying internal auditing standards, procedures, and techniques is required in performing **audits**. Proficiency **means the** ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance.
2. Proficiency in accounting principles and techniques is required for auditors who work extensively with financial records and reports.
3. An understanding of management principles is required to recognize and evaluate the materiality and significance of deviations from good business practices. **An** understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to **be** able to carry out the research necessary to arrive at reasonable solutions.
4. An appreciation is required of the fundamentals of such subjects as accounting, **economics**, quantitative methods, and computerized information systems.
5. A knowledge of directives and other issuances from GAO, **OMB**, **DoD**, the Congress, or other authoritative bodies.
6. A working familiarity with the organizations, programs, activities, and functions of each major **DoD Component** subject to audit, in sufficient depth to knowledgeably assess that Component's mission **accomplishment** and to identify problems to the degree required for a particular task or set of duties.
7. A knowledge of Government policies, requirements, and guidelines related to a particular task.
8. Managerial skills for supervisors and team leaders.

230 Human Relations and **Communications** - Auditors shall be skilled in dealing with people and in **communicating** effectively.

1. Auditors shall understand human relations and maintain satisfactory relationships with auditees.
2. Auditors shall **be** skilled in oral and written **communications** so that they can convey clearly and effectively such matters as audit objectives, evaluations, conclusions, and recommendations.

240 Continuing Education - **Auditors** shall maintain their technical **competence** through continuing education. Auditors are responsible for continuing their education to maintain their proficiency. They should keep informed about improvements and current developments in auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies;

attendance at seminars, college courses, and Federal and in-house training programs; and participation in research projects. (See Chapter 4, "Achieving and Maintaining Professional Proficiency, " for detailed guidance.)

250 **Compliance with Standards of Conduct** - Auditors shall **comply** with professional **standards** of conduct. **Auditors** shall maintain high standards of honesty, objectivity, diligence, and integrity in the performance of their **work**.

300 **SCOPE OF AUDIT WORK** - The scope of each financial **audit** shall **include** an evaluation of the **adequacy** and effectiveness of the organization's internal control system (i.e., policies and procedures) , and of the quality of performance **in** carrying out assigned responsibilities. For performance audits, an assessment **should be** made of applicable internal **controls** when necessary to satisfy the **audit** objectives.

310 **Reliability and Integrity of Information** - **Auditors** shall review the reliability and integrity of financial operating information and the means used to identify, measure, classify, and report such information. Information system provide data for **decision-making**, control, and **compliance** with external requirements. Therefore, auditors shall examine information systems and, as appropriate, ascertain **whether**:

1. Financial and operating records and reports contain accurate, reliable, timely, **complete**, and useful information.
2. Controls over **recordkeeping** and reporting are adequate and effective.

320 **Compliance with Policies, Plans, Procedures, Laws, and Regulations** - **Auditors** shall review the **systems** established to ensure **compliance** with those policies, plans, **procedures**, laws, and regulations **that** could have a significant impact on operations and reports, and should determine whether the **organization** is in compliance.

1. Management is responsible for establishing the systems designed to ensure **compliance** with such requirements as policies, plans, procedures, and applicable law and regulations. Auditors are responsible for determining whether the **systems** are adequate and effective and whether the activities audited **are complying** with the appropriate requirements.
2. When **conducting** financial **audits**, the auditor shall determine whether the **financial statements** of an **audit** entity fairly present the financial position and the **results** of financial operations in accordance with accounting principles and standards prescribed by the Comptroller General.

330 **Safeguarding of Assets** - **Auditors shall** review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

1. Auditors shall review the means used to safeguard assets from various types of losses, such as those resulting **from** theft, fire, **improper** or illegal activities, and **exposure** to the elements.

2. **Auditors**, when verifying the existence of assets, shall use appropriate audit procedures.

340 Economical and Efficient Use of Resources - Auditors shall appraise the **economy** and efficiency with which resources are managed.

1. **Management** is responsible for setting operating standards to measure an entity's **economical** and efficient use of resources. Auditors are responsible for determining the **following**:
 - a. Whether operating standards have been established for measuring **economy** and efficiency.
 - b. Whether established operating standards are understood and are being met.
 - c. Whether deviations from **operating** standards are identified, **analyzed, and communicated** to those responsible for corrective action.
 - d. Whether corrective action has been taken.
2. **Audits** related to the **economical** and efficient use of resources shall identify the following:
 - a. Underutilized facilities.
 - b. Nonproductive work.
 - c. Procedures that are not cost-effective.
 - d. Overstaffing and understaffing.
 - e. Unneeded or costly procurements.
 - f. Causes of inefficiencies or **uneconomical** practices.

350 Accomplishment of Established Objectives and Goals for Operations and Programs - Auditors shall review operations and programs to ascertain whether results are **consistent** with established objectives and goals and whether the operations or programs are being carried out as planned. Management is **responsible** for establishing operating or program objectives **and** goals, developing and implementing control procedures, and **accomplishing** desired operating or program results. The auditor shall determine whether the desired results or benefits are being achieved effectively and whether the entity has considered alternatives that might yield desired results at a **lower** cost.

400 PERFORMANCE OF AUDIT WORK - The auditor is responsible for planning and conducting the audit assignment, subject to supervisory review and approval.

410 Planning the Audit - **Auditors** shall plan each audit. Planning shall be documented and **include** the following:

1. Establishment of audit objectives and scope of work.
2. Consideration of audit requirements at all levels of Government, to the extent they are known.

3. Background information about the activities to be audited.
4. **On** site surveys to **become** familiar with the activities and controls to be audited, to identify areas for audit emphasis and to invite **auditee comments** and suggestions.
5. **Communication** with all who need to know about the audit.
6. Resources necessary to **perf orm** the audit.
7. Consideration of materiality or significance and audit risk relative to audit objectives and scope of work.
8. Determination of how, when, and to whan **audit** results will be communicated.
9. Approval of the **audit** work plan.
10. Coordination with other Government auditors, when appropriate, including work already done and other work that may be intended in the future.
11. Reliance to the extent possible on the work of other audit, inspection, or **oversight** teams.

420 Audit Program - A written audit program is essential to conducting audits efficiently and effectively and shall be prepared for each audit. The **aud it** program shall, when appropriate, be designed to evaluate **compliance** with laws and regulations, and shall be designed to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. The audit program **generally** shall include the following information:

1. Introduction and background.
2. Purpose and scope of audit.
3. Objectives of the audit.
4. Definition of terms.
5. Special instructions.
6. **Audit** procedures and methods to be used to gather and analyze data.
7. Information on the general format (if not **included** in the **audit** organization policies and procedures) to be followed in the audit report and the type of information to be included.
8. Appropriate cross-references to the supporting audit working papers.

430 Supervision - The internal audit organization shall ensure that **audits** are supervised properly. Supervision shall be exercised at each level of the internal audit organization to provide quality control over audit assignments.

1. Supervision is a continuing process, beginning with planning and ending with the preparation of the final audit report.
2. Supervision includes the following:
 - a. Providing suitable instructions to subordinates at the beginning of the audit and approving the audit program.
 - b. Seeing that the approved audit program is carried out, unless deviations are both justified and authorized.
 - c. Ensuring that the audit is performed in conformance with professional auditing standards.
 - d. Determining that audit working **papers** are prepared and retained in accordance with prescribed procedures and adequately support the audit analyses, findings, conclusions, and reports.
 - e. Ensuring that **audit** reports are accurate, objective, clear, concise, constructive, and timely.
 - f. Providing that the work assignments are **commensurate** with the abilities of the assigned staff.
 - g* Determining that audit objectives are being met.
3. Supervision includes sufficient interim checks of audit work, to determine whether audit projects are on schedule and are being executed in accordance with plans, so that necessary adjustments can be made.
4. Appropriate evidence of supervision shall be documented and retained.
5. The extent of supervision required will depend on the proficiency of the auditors and the dif f **iculty** of the audit assignment.
6. All **auditing** assignments, whether performed by or for the **audit organization, remain** the **responsibility** of the head of the internal **audit** organization.

440 Examining and Evaluating Information - **Auditors** shall collect, analyze, interpret, and document information to **support** the audit results.

1. Information, including its materiality or significance and audit risk, shall **be** collected on all matters related to the audit objectives and scope of work.

2. Information shall be sufficient, **competent**, and relevant, to provide a sound basis for audit findings and **recommendations**. **"Sufficient"** information is factual, **adequate**, and convincing so that a **prudent, informed** person **would** reach the same conclusions as the auditor. **"Competent"** information is reliable and the best attainable through the use of appropriate audit techniques. "Relevant" information supports audit **findings** and **recommendations** and is consistent with the objectives for the audit.
3. Audit procedures, including the testing and sampling techniques employed, **shall** be **selected** in **advance, when** practicable, and **expanded** or altered if circumstances warrant.
4. The process of **collecting**, analyzing, interpreting, and documenting information shall be supervised, to provide reasonable assurance that the auditor's objectivity is maintained and that audit goals are met.
5. Working papers that **document** the **audit** shall be prepared **by** the auditor and reviewed by audit supervisory personnel. These working papers shall record the information obtained and the analyses made, and shall support the basis for the results, findings, and **recom-**mendations to be reported. The working papers shall be **complete**, accurate, clear, understandable, legible, and neat. They shall contain relevant information and adequate indexing and **cross-**referencing to schedules and **summaries**.
6. The working papers should serve to **support** audit planning, execution, and reporting. The working papers shall, at a minimum, **document** the following:
 - a. Planning.
 - b. The examination and evaluation of the adequacy of internal controls.
 - c. Auditing procedures **perf ormed**, the information obtained, and the conclusions reached.
 - d. Supervision review of the working papers and disposition of review **comments**.
 - e. Reporting of **all audit** results, **including** the **modif ication** or deletion of all **proposed** findings **and** recommendations.
 - f. **Followup**.
7. **Auditors** may rely on the work of others to the extent feasible once they satisfy themselves of the quality of the others **work** by appropriate tests or by other acceptable methods (reference (c)) .

450 Internal Controls - When necessary to satisfy the audit objectives, a **study** and evaluation including a vulnerability or risk assessment shall be made of the internal control **system** (i.e., policies and procedures) applicable to the organization, **program**, activity, or function under **audit**.

460 Reliability of **Computer-Processed** Data

1. For **performance** audits, when computer-processed data are an **important** or **integral** part of the audit and the data's reliability is "crucial to accomplishing the **audit** objectives, **auditors** need to satisfy themselves that the data are relevant and reliable. To determine reliability of the data, the **auditor** may either:
 - a. **Conduct** a review of the general and application controls in the **computer-based system**, including additional tests as warranted.
 - b. Conduct other tests and procedures such as confirming **computer-processed** data with independent sources, **comparing** the data with **source** documents, and reviewing agency test procedures and results.
2. The degree of testing needed to determine data reliability generally increases to the extent that the **general** or application controls were determined to be unreliable or were not reviewed. When the reliability of a **computer-based** system is the primary objective of the audit, the **auditors should conduct** a review of the system's general and applications controls. **When computer-processed** data are used by the **auditor**, or **included** in the report, for background or informational purposes and are not significant to the audit results, citing the source of the data in the report will usually satisfy reporting standards. Refer to Chapter 9 of this Manual for additional explanation of this standard.

470 Fraud, Abuse and **Illegal** Acts - **Audit** steps and procedures should be designed to provide reasonable assurance of detecting material errors, **irregularities**, and illegal acts and to identify the effect on the entity's financial statements, operations, or **programs**. Auditors shall be alert to situations or transactions that **could** be indicative of **fraud**, abuse, and illegal **expenditures** and acts; and if such evidence exists, **auditors** shall coordinate their examinations with applicable investigative agencies when suspicions of fraud or illegal acts exist.

480 Audit **Followup** - Auditors shall follow up on a selective basis to ascertain that appropriate corrective action was taken on agreed-upon **recommendations** in DoD and GAO **audit** reports.

500 **REPORTING** - **Auditors** shall report the results of their **audit** work in writing.

510 **Form** - Written reports are necessary to (a) **communicate** the results of **audits** to officials at all levels of Government, (b) make the findings and **recommendations** less susceptible to misunderstanding, (c) make the findings available for public inspection, and (d) facilitate **followup** to determine whether appropriate corrective measures have been taken.

- 520 Distribution - Written **audit** reports are to be subinitted to the appropriate off **icials** of the organization audited and to the appropriate off **icials** of the organizations requiring or arranging for the **audits** , unless legal restrictions or ethical considerations prevent it. Copies of the **reports** also shall be sent to other officials who may be responsible for taking action on audit findings and **recommendations** and to others authorized to receive such reports. Unless restricted by law or regulation, copies shall be made available for public inspection.
- 530 Timeliness - Reports shall be **issued promptly** to make the information available for timely use by management and legislative officials and to permit **prompt** initiation of **followup** action. If applicable, reports are to be issued on or before the date specified by regulation or other special arrangement.
- 540 Regret Contents - The **audit report** shall include the following:
1. A description of the scope and objectives of the audit and background information. The scope should reflect the extent of reliance and **magnitude** of any work of others used as a basis for conclusions relative to audit results and objectives. Any impairments to audit scope, as well as the effect impairments may have had on the audit conclusions, shall be clearly identified in the report.
 2. A description of when the audit was performed and the period covered by the audit.
 3. A statement that the **aud it** was made in accordance with generally accepted government auditing standards.
 4. For financial **audits**, a statement on the internal controls structure, assessment of control risk, and a description of material weaknesses found in evaluating the internal control system. For **performance** audits, a statement on the significant internal controls that were assessed, the scope of the auditor's assessment, and the significant weaknesses found.
 5. A specific **conclusion** on each of the stated **audit** objectives, including the materiality or significance and audit risk associated with each area if necessary for a proper understanding of the auditor's conclusions.
 6. A copy of those financial statements reviewed on which an opinion is being **expressed**, the auditor's opinion on the financial. statements, and, when appropriate, a statement on any informative disclosures included in the financial statements (applies to financial statements and financial related **audits** as defined by the **Comptroller** General of the United States) .
 7. Photos, charts, graphs, attachments, and exhibits when they contribute to the clarity of the audit report,.

8. Statements on tests of compliance relative to applicable laws and regulations when required by the audit objectives. However, the report shall include a statement that identifies significant instances of noncompliance and instances or indications of fraud, abuse, or illegal acts found during, or in connection with, the audit. Moreover, fraud or illegal acts shall be covered in a separate written report if this would facilitate the timely issuance of an overall report on other aspects of the audit.
9. Audit findings that contain each of the following elements:
 - a. Criteria - The standards, measures, or expectations used in making the evaluation or verification (what should be) .
 - b. Condition - The factual evidence that the auditor found in the course of the examination (what is) .
 - c. Cause - The reason for the difference between the expected and actual conditions (why it happened) . If the cause(s) cannot be determined, this fact should be so stated in the report and an explanation given. If the stated audit objectives do not require an identification of cause(s) , that fact should be made clear.
 - d. Effect - The risk or exposure of management because the condition is not the same as the criteria (the impact of the difference). In determining materiality and significance of audit risk, the auditor may consider factors set forth in the U.S. Comptroller General's pamphlet (reference (c)) .
10. Specific and realistic recommendations for actions to improve problem areas noted in the audit and to improve operations.
11. Information on the potential monetary benefits associated with the audit recommendations.
12. Pertinent views of responsible management officials concerning the auditors' findings, conclusions, and recommendations. Their views shall be obtained in writing. Management's written comments may be included as an appendix to the report or presented in the body of the report.
13. If the auditors disagree with management's views on the audit recommendations, the audit report shall state both positions and the reasons for disagreement.
14. A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
15. An evaluation of any corrective actions taken by management in response to recommendations in prior audits when audit objectives are similar to objectives of the prior audit.

16. A listing of any issues and questions needing further **study** and consideration.
17. A statement as to whether any pertinent information has been **omitted** because it is deemed privileged or confidential. The nature of such information shall be described, and the law or other basis under which it is withheld shall be stated. If a separate **report** was issued containing this information, it shall be indicated in the report.
18. A listing of the **reports** distribution.

550 Report Presentation - The **audit** report shall conform to the following guidelines:

1. Present **complete** and factual data accurately and fairly. **Include** only information, findings, and conclusions that are supported **adequately** by sufficient 'evidence in the auditors' working papers.
2. Present findings and conclusions in a convincing manner, distinguishing clearly between facts **and** conclusions.
3. Be objective, unbiased, and free of distortion.
4. Be written in language as clear and simple as the subject matter permits.
5. Be concise but, at the same time, clear enough to be understood by users.
6. Place primary emphasis on improvement rather than on criticism of the past. - **Critical comments** shall be presented in a balanced perspective, considering any unusual difficulties or circumstances faced by the operating officials concerned.

600 MANAGEMENT OF INTERNAL AUDIT ORGANIZATION - The head of the internal audit organization is responsible for properly managing the organization so that audit work fulfills the general **purposes** and responsibilities set forth in law or approved by the head **or** deputy head of the agency; resources of the internal audit organization are **employed** efficiently and effectively; and the audit work conforms to **DoD** auditing standards, policies, and procedures.

610 Organization - The head of the internal **audit** organization is **responsible** for properly organizing the office to help ensure that the resources of the internal audit organization are deployed **efficiently** and effectively to fulfill the organization's general purposes and responsibilities.

1. The organizational structure shall foster coordinated, balanced, and integrated **accomplishment** of the organization's mission, goals, and objectives.

2. Recruiting, staffing, and training shall **support** the mission and organizational structure; the organization should not be structural around available skills. Full advantage shall be taken of those skills that are available.
3. The internal **audit** organization shall reflect the unique **audit need** of its **own** agency. Whether this is done by function, by parallel structure, or by sane **combination** of both, the way in which each office is organized should simplify, and not complicate, the ability of audit **personnel** to review agency programs and operations.

620 Policies and Procedures - The head of the internal **audit** organization shall provide written policies and procedures to guide the audit staff.

1. The form and content of written policies and procedures shall be appropriate to the size and structure of the internal audit organization and the complexity of its work. Formal administrative and technical audit manuals may not be needed by all internal audit organizations. A small internal audit organization may be managed informally. In a large internal audit organization, more formal and **comprehensive** policies and procedures are essential to guide the audit staff in the consistent **compliance** with the organization's standards of performance.
2. A system shall be established and maintained for receiving, controlling, screening, and assuring appropriate disposition of allegations involving waste, mismanagement, fraud, and abuse, whether from internal or external sources.
3. Procedures shall be established for safeguarding the identity of confidential sources, and for protecting privileged and confidential information.
4. Policies shall be established for **documentation** of audit performance, including instructions for the types of audit working paper files to be maintained, and procedures for indexing.

630 scope of **Responsibility** - Each internal audit organization shall maintain records of its audit universe that identify the organizations, programs, activities, functions, and systems subject to **audit**.

640 Determination of Audit Priorities - Each internal audit organization shall review periodically its audit universe and determine the coverage, frequency, and priority of audit required for each. The review shall include consideration of the following factors:

1. Statutory and regulatory requirements.
2. Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews.
3. Newness, changed conditions, or sensitivity of the organization, program activity, or function.

4. Current and potential dollar magnitude.
5. Susceptibility of programs to fraud, waste, abuse, or potential for improperly diverting assets for personal gain.
6. Extent of Federal participation, in terms of resources or regulatory authority.
7. **Management** needs to be met, -including key management decision dates, as developed in consultation with the responsible program officials and senior management.
8. Prior audit experience.
9. **Timeliness**, reliability, and scope of **audits** performed by others.
10. Results of other evaluations, such as inspections, program reviews, etc.
11. Availability of **audit** resources.

650 Planning - Each internal audit organization shall establish plans to **carry** out its **responsibilities**.

1. The planning process shall include the following:
 - a. Establishment of goals and objectives.
 - b. Formulation of **audit** plans, **including** maintenance of an **audit** universe file and establishment of audit cycles for each area within the audit universe.
 - c. Assessment of **accompl**ishments.
2. ~~Long-~~ and short-term goals and objectives should be established for the internal audit organization. The goals and objectives should be achievable, included in written operating plans and budgets, and accompanied by measurement criteria and target dates for **accomplish-**ment .
3. The internal audit organization shall prepare an annual audit plan. The plan shall be flexible and adjusted, as necessary, to provide for audit coverage of unforeseen priorities. The head or deputy head of the agency shall review the plan upon **completion**. At a minimum, such plans shall identify the programs and operations selected for audit and define the following for each:
 - a. Specific reasons for the selection.
 - b. Overall **audit** objective.
 - c.** Locations to be **audited**.
 - d.** Organization that will perform the **audit**.
 - e. Staff days and other **resources** needed to perform the audit.
 - f. Anticipated benefits to be obtained from the audit.

4. In **developing** annual **audit** plans, suggestions shall be obtained from external management and from members of the audit organization, and feedback shall be provided regarding the disposition of audit results.
5. The internal audit organization shall assess its results and accomplishments. To conduct such evaluations, the internal audit organization shall develop and maintain a data base that includes, at a **minimum**, the following: a history of past efforts and results to show prior performance, a planning process to show expected performance, and a management information system to show actual performance and results. The data base shall be developed in accordance with the policies of DoD Directive 7750.5, "Management and Control of Information Requirements" (reference (j)). The audit organizations should assess realistically the information in the data base to identify **shortfalls** in performance, improve operations in the future, determine whether goals and objectives are reasonable, and affix accountability for results.

660 Coordination - The internal audit organization shall coordinate its activities internally, and with other **components** of Government and independent outside **auditors** it may encounter, to ensure effective use of available resources.

1. In planning work to be performed, the internal audit organization shall coordinate with agency management to ensure management needs are considered appropriately.
2. The internal audit organization shall minimize unnecessary duplication of audit work by coordinating the nature and scope of their **audits** and reviews with other DOD **audit**, investigation, and inspection groups, the GAO, and independent outside auditors.
3. **Audit** plans shall be exchanged among DoD internal audit organizations. The internal audit organization shall also meet with the appropriate GAO officials to exchange and discuss tentative audit plans for the next fiscal year. Central DoD audit activities are encouraged to **communicate** regularly and frequently with the GAO to discuss planned audits so as to minimize duplication and overlap. If overlapping or duplicative coverage is indicated, every effort **shall** be made to resolve it.
4. **Upon** beginning an **audit**, the **audit** staff shall seek information concerning other audits and **reviews** that have been performed of that activity or program.
5. The **audit** staff shall be alert to situations where problems are identified that may affect other **DoD Components**, Federal Agencies, and independent outside **auditors**. When such situations arise, the internal audit organization shall coordinate with others involved so that, where appropriate, one **audit** may be performed to fulfill the requirements of all.

670 Internal Audit Organization Qualifications - The internal audit organization shall possess or obtain the **knowledge, skills, and** disciplines needed to carry out its **audit** responsibilities.

1. The internal **audit** organization shall assess the skills of staff on hand, determine the extent to which these skills match requirements, and develop a plan to address the skills that are deficient.
2. The audit staff collectively must possess the knowledge, skill, discipline, and experience essential to the practice of the auditing profession. These attributes include proficiency in applying auditing standards, procedures, and techniques.
3. The internal **audit** organization shall have employees or use outside experts who are qualified in the disciplines needed to meet audit responsibilities. The disciplines include accounting, budgeting, statistics, **computer** systems, engineering, medicine, law, etc. Each member of the internal audit organization, however, need not be qualified in all of these disciplines.

680 Personnel Management and Development - The internal audit organization shall establish a **program** for **selecting** and **developing** its human resources. The **program** shall provide for the following:

1. Selection of qualified and **competent** individuals.
2. Training and continuing educational **opportunities** for each staff member.
3. Appraisal of each auditor's performance at least annually.
4. Retention and **promotion** of highly skilled personnel to senior management positions.
5. Counseling of auditors on their performance and professional development.

700 QUALITY ASSURANCE - Each internal **audit** organization shall establish and maintain a quality assurance program to ensure that work performed adheres to applicable **auditing** standards, policies, and procedures; conforms to internal regulations; **and** is carried out economically, efficiently, and effectively.

1. A quality assurance program shall include the **following** elements:
 - a. Supervision.
 - b. Internal quality control reviews.
 - c. External quality control reviews.
2. Supervision of the work of auditors shall be carried out continually to ensure **conformance** with auditing standards, organization policies and procedures, and audit programs.

- 3* Internal quality control reviews shall be performed **periodically** by members of the audit staff to appraise the quality of the audit work performed. These reviews shall be performed in the same manner as any other internal audit.
4. External **quality** control reviews shall be performed to appraise the quality of the internal **audit** organization's operations. These reviews shall be **performed** using guidelines published by the **OIG, DoD**. Such reviews shall be **conducted** at least once every 3 years. Unless otherwise directed, the Office of the Assistant Inspector General for Audit Policy and Oversight (**OAIG-APO**) shall conduct the reviews of the **DoD** central internal audit agencies and the audit agencies, in turn, shall conduct reviews of their Components' internal review or nonappropriated fund **audit** organizations. On **completion** of the review, a formal written report shall be issued. The report shall express an opinion as to the organization's **compliance** with applicable auditing standards and, as appropriate, shall include **recommendations** for improvement.

DOD INTERNAL AUDITING STANDARDS

OVERVIEW

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